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BUDGET MESSAGE

DATE: June 20, 1978
TO: Honorable Mayor and City Council
FROM: City Manager
SUBJECT: RECOMMENDED PROGRAM OF SERVICE FOR FISCAL YEAR
1978-79

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INTRODUCTION

The period of uncertainty which was widely predicted following passage of Proposition 13 has started, with lawsuits being filed regarding the constitutionality of the initiative, and with the Legislature attempting to facilitate its implementation with the least possible damage to public services.

Never in recent California municipal history has there been a more difficult period for attempting intelligent planning of the City's fiscal affairs. Many factors are in flux, and what is true today may be false next week. It is a time of great challenge, requiring our very best efforts to plan for the efficient conduct of the City's business, and also requiring that irreversible decisions not be made, permitting virtually instantaneous adaptation next week or next month to meet changing circumstances.

Department directors and other management personnel having budgetary responsibilities have responded to this challenge with great energy, a cooperative spirit and considerable imagination. The combination of these factors and the City's basically sound financial condition (plus a couple of calculated risks which I believe to be prudent under the circumstances and which are discussed below) have resulted in a recommended program for 1978-79 which is nowhere near as drastically affected as those of many other cities.

I particularly wish to commend Finance Director Jim Duffy and Assistant Finance Director John Copeland for their extra efforts and many hours of extra work adapting to the difficult circumstances of this budget season.

THE BASIC APPROACH: ASSUMPTIONS

First of all, we wish to thank Council for its wise decision in authorizing us to submit this preliminary budget approximately one month later than normal, as decided upon at your meeting of February 6. This action saved literally hundreds of man hours, thousands of dollars in false starts and the unnecessary work of preparing several alternate budgets.

Although this delay has permitted us to concentrate our fire on a single planning effort, we are of course still faced with uncertainties which will clearly not be resolved for weeks or even months. We must therefore submit for your consideration a budget based on our best judgment as it was hammered out in mid-June, with the understanding that subsequent events which cannot possibly be known at this time may well require modifications later in the year. This situation has required that we make certain assumptions, which (in addition to our usual budgetary guidelines which are well known to Council) form the basis for our recommendations. Because each of these assumptions is subject to testing by Council, the major assumptions are outlined in summary form:

1. We are making the assumption that Proposition 13 will be ruled constitutional by the California Supreme Court, although there are significant doubts on this point and an adverse ruling could leave a major void insofar as tax relief is concerned.
2. We are making the assumption that the courts will rule (and/or Legislature will take action to the same effect) that cities are "districts" within the meaning of Proposition 13, and the formula which is evolved "according to law" will afford some measure of property tax revenue to cities. There is the possibility, however, that the City's revenue may in fact not be a proportionate share of the remaining \$4 tax rate. Changes in this assumption, based on later developments, may well be made by Council or suggested by this office.
3. Although the prime target of Proposition 13 (despite its property tax orientation) was clearly government spending in general (and local government is ironically very "small potatoes" compared with other levels of government) we have predicated our recommendations on "tightening up" beyond what we normally would be recommending. We hope and believe that we have stopped short of false economies, which may look good in the short run only to prove costly in the long run. There is no doubt in my mind, however, that reductions in fiscal year 1978-79 (such as deferral of equipment purchase) will inevitably show up as a bulge in future years.
4. Whatever "bail out" for local government may be devised by the State of California, we are assuming that it may have minimal impact on Salinas, and may in fact even have "strings" that the City Council may find to be unacceptable. We are therefore planning on no specific relief whatever from this source, but of course any such revenue could be utilized, if Council desires, to restore selected budget cuts.

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5. We are assuming that Council will prefer to increase fees for service in selected areas, such as golf courses, swimming pool, etc., which are not presently self-supporting, rather than close the facilities entirely, but that costs should be cut wherever feasible.
6. We are assuming that (a) the uncertainties of fiscal year 1978-79 represent an aberration in a transitional year, with the picture clearing up considerably after several months, that (b) we should attempt to hold as many programs as possible intact pending this clarification (requiring a level of service that would not be prudent for a period of years under present circumstances) but that (c) reasonable reserves should be accumulated through the gutting of the 5 Year Capital Improvement Program to tide the City over in terms of essential programs for several months under "worst case" circumstances.
7. We are assuming that Council would rather sustain losses in Capital Project areas and other programs that may be relatively easily restored, rather than resort to employee layoffs, if at all possible.
8. Similarly, to the extent feasible, we are making the assumption that Council would prefer to utilize continuation of the existing hiring freeze in order to achieve reductions through attrition in preference to layoff.
9. We are assuming that well defined community objectives of long-standing, such as the Community Center, represent the true long-term values of the community, and should not be engulfed by the current extreme swing of the economy pendulum.
10. Despite the fact that some bizarre contrasts are thereby produced, we assume that Council does not wish to penalize specially funded programs simply to be placed on an equal footing with General Fund financed programs which are impacted by Proposition 13. Examples are the CETA Program, Housing Assistance Program, Transit Program, and Gas Tax Projects, which are either entirely or predominantly independent of the property tax. Reductions of bus service, for example, would have no effect on property tax resources and would serve only to dramatize economy measures.

It is an anachronism and an irony that (a) the U.S. Department of Labor should strongly encourage city expenditures for employment through the CETA program, (b) the U.S. Department of Housing and Urban Development threaten to cut off Block Grant Funds if we do not spend them

faster, (c) the U.S. Economic Development Administration provide funding to give immediate stimulus to the economy, (d) the U.S. Urban Mass Transit Administration provide more funds specifically designated for mass transit programs than we can efficiently use, and (e) the U.S. Treasury Department unilaterally send unrequested anti-recession funding, while at the same time the California voters are demanding that local government make drastic expenditure reductions. We assume, however, that in this Alice in Wonderland environment, the Council does not wish to make reductions solely as a propaganda ploy with no substantive effect on the property tax.

It will be difficult for the public to understand, however, why one program may be switched to a "dead stop" while another is being pressed to flank speed, all under the general sponsorship of the City.

SUMMARY OF BUDGET EFFECT

The recommended program of service for 1978-79:

- represents an overall reduction of \$1,852,550 from the current year's budget of \$26,384,610 to \$24,532,060;
- reflects a reduction of \$523,439 in the operating budget, from \$15,478,819 in the current year, to \$14,955,380, and a reduction in the Capital Projects budget (almost wholly from special purpose funds) from a level of \$9,365,480 for the current year to a level of \$8,015,560.
- anticipates revenue adjustments, negative and positive, to a level of \$25,217,565 compared with \$23,048,712 for the current year, due primarily to variations in capital projects scheduling and financing;
- provides for essentially the same levels of service in most program areas, with reduction in selected operations as necessitated by expected reductions in property tax revenue; and
- because (a) recommended operating expenditures have been held below expected revenues, and (b) all funds previously committed to the Five Year Capital Improvement Program have been recommended for withdrawal from these commitments, and aggregated for possible re-allocation, significant reserve balances have been made available to "weather" the uncertainties of the months and perhaps years ahead.

FINANCIAL SUMMARY

Comparison of the proposed budget for Fiscal Year 1978-79 with the current 1977-78 budget is as follows:

	New Budget FY 78-79	Old Budget FY 77-78	Increase (Decrease)	% of Change
<u>ALL FUNDS</u>				
City Operating Budget	\$14,955,380	\$15,478,819	(\$ 523,439)	- 3.4%
Capital Projects Budget	8,015,560	9,365,480	(1,349,920)	-14.4%
CETA Budget	1,561,120	1,540,311	20,809	+ 1.4%
 Total Expenditures	\$24,532,060	\$26,384,610	(\$1,852,550)	- 7.0%
 <u>Revenues</u>				
General Fund	\$12,561,911	\$14,836,962	(\$2,275,051)	-15.3%
Special Funds	12,655,654	8,211,750	4,443,904	+54.1%
 Total Revenues	\$25,217,565	\$23,048,712	\$2,168,853	+ 9.4%

In a "normal" year, the total budget could be expected to be driven up by inflation, as City purchase of labor, and goods and services are affected by the same pressures as the private sector. With the inflation rate running 7 to 8 percent in the past year, rises of roughly the same magnitude would not normally have been unexpected. Each department and each program has been squeezed, however, and inflation has essentially been "absorbed" in the total figure shown. This brings various programs right to the edge, with little or no margin for unexpected emergencies (such as sewage treatment plant repairs, police control of Main Street cruising problems, etc.) so Council must expect that our traditional reluctance to request supplementary appropriations may be difficult to maintain in the year ahead.

GENERAL CONFIGURATION OF PROGRAM MODIFICATIONS

What deviations from a "normal" budget have been necessary to respond to present circumstances and to give Council the maximum possible range of options to respond in future months and perhaps beyond? We can summarize our recommended modifications in four basic categories: (1) Reductions which have already been made; (2) Capital Projects which are recommended for indefinite deferral; (3) operating reductions; and (4) prospective reductions which may be made in the months ahead but which require careful analysis and evaluation. Each of these will be discussed in turn.

Reductions Already Made

The first casualty of any cost reduction program is necessarily those enhancements in service which were being contemplated or studied and which clearly must be eliminated before established programs are cut. These are not truly "reductions", then, in

the sense of being subtracted from an established base, but are highly desirable programs which are common in other cities. Five examples are as follows:

1. Paramedic Program.

Many other areas of the State have this extremely popular (and extremely expensive) program, and we have had it under study, as Council knows, for two years. The high cost is the principal reason that it has not yet reached you as a recommended program, as we had hoped to develop a lower cost alternative. We now see no point in studying the matter further.

2. Additional Police beat.

The City has grown by 3,240 people in the less than 2 years since the special census, the equivalent of several of the smaller cities in this area, and both the Police Chief and I felt that to maintain a reasonable emergency response time would require the addition of another beat (4 Officers for around the clock coverage, 7 days a week) as well as 2 Detectives and backup support to absorb this workload. We are reconciled to continuing at present staffing levels this year, and hope that the public will understand that some types of calls must inevitably slip to a lower priority.

3. Fire protection facilities.

Replacement of the 50 year old Headquarters Fire Station in 1978-79, and promise of a station for the increasingly high value area in and around Santa Rita will necessarily be deferred. Consideration of a station for the Rossi-Rico area, despite major construction now underway in that area (new main post office, department store, other commercial development, and up to 530 homes) will also be deferred.

4. Fire staffing and training facilities.

Despite a phenomenal increase in arson over the last year or so, we will be unable to recommend approval of the Chief's request for an Arson Investigator. We are similarly deferring consideration of a Training Officer and certain training facilities including video equipment, which would produce long term improvements in training.

5. Projects.

A number of projects which would otherwise have been considered for the 5 Year Capital Improvement Program to insure the orderly provision of public services in future years have also been deferred.

Deferral of Capital Projects Already Scheduled

The second category of casualties in this program is the 5 Year Capital Improvement Program. In the normal course of events, as Council is aware, we plan in an orderly way for capital improvements that would be needed in succeeding years, and attempt to allocate funds for these projects. For larger projects, such as the Headquarters Fire Station, this necessitates "saving up" for several years, and some funds which we expected to accrue a year or two in the future were programmed for this project. The only prudent course of action under the present circumstances, however, is to totally gut the Capital Improvement Program in order to make those funds available for more immediate possible needs.

Reductions In Present Levels of Operations

Direct reductions in the present levels of operations are the most difficult to make without damage to City services, and the most difficult to restore if new resources are to become available in the future. Among the more definable reductions (i.e. other than reductions in specific budget detail) are the following:

1. Reductions in library programs. Triggered in part by the County's announced intention of withdrawing from its contract with the City to provide library service to residents of the unincorporated area, we are necessarily recommending larger reductions than we would prefer in book acquisitions, staffing, and library hours. It is possible that a State reimbursement program yet to take precise shape may partially offset the loss of the County contract and may permit us to continue serving all citizens regardless of place of residence, but at a reduced level. A cut in the book budget of about 50% could be restored in the future if additional funds are secured from any source.

Knowing of Council's determination not to leave the new Santa Lucia Branch Library standing unopened (which would of course, border on the ridiculous) we are recommending that the same personnel now operating the El Gabilan Branch operate both branches, each on a 3 day per week schedule, 6 hours per day. Reduction in the John Steinbeck Library's hours from 69 per week to 54 is also recommended, at least until the financial picture clears up. I sincerely hope that this is a temporary measure. A reduction in hours for 13 to 16 employees, totalling 2½ full man years is involved in this change.

2. Reductions in Parks and Recreation programs. Cancellation by the Salinas Union High School District of the joint City/School program operated for years by the City also triggers necessary reductions in the recreation program. This will mean fewer recreation sites for young people,

but sufficient sites remain, geographically well distributed, that this should not represent a severe burden on anyone. Because the Municipal Pool represents a significant net loss operation to the City, we are recommending that it be closed after Labor Day, perhaps to reopen next Memorial Day if funding can be rearranged in the meantime. The pool repairs that have been deferred for about 7 years would also be contingent on the same factors. In a separate action we will also be recommending a slight increase in pool admission fees, as some increase is needed to balance, but more than a slight increase is likely to price this service out of the reasonable market.

We will also be recommending reductions in the softball and golf operations, unless revenue increases to offset losses can be made.

3. Elimination or reductions in contracts with other agencies. We are reluctantly and with regret recommending termination of the City's contract with the Chamber of Commerce for the Visitors and Convention Bureau. This \$35,000 contract was aimed at increasing conference activity, with resultant prospective growth in motel, restaurant and general business activity, but is the type of program that is admittedly vulnerable in belt-tightening circumstances. The \$35,000 might be more directly applied toward the overhead costs of maintaining the Community Center itself.*

Similarly, our contract with Public Technology, Inc., which represents the City's only investment in research and development of better ways to conduct the City's business, is a program we could admittedly live without in a tight year. I recommend the reduction but I hope it can be restored if and when the situation improves.

Some decisions on contracts with community agencies, such as the Symphony Association, are probably better made by Council than by the City Manager. They have been left intact for your decision, but I will make recommendations on each if you wish.

Some contracts I specifically recommend against reducing, including the following for the following reasons:

Heroin Detox: The City's \$5,000 investment yields another \$167,000 worth of program, affecting up to 80 potential heroin users. The \$5,000 investment is returned many times over in reduced police activity.

Sunrise House: Similarly, the City's \$10,700 investment in Sunrise House results in youth crisis counselling that alleviates police activity many times that figure.

*Council may wish to restore this cut if transient occupancy tax rate is raised, as recommended after this report was drafted.

Sun Street Center: The same is true regarding the City's \$36,300 investment in alcoholism counselling.

Swinging Door: The direct value of this program is probably more marginal than any of the preceding, but until we have something to replace it, I am reluctant to recommend abandoning the program. Its cost, moreover, is supported from the Salinas Urban Renewal Agency, not the City general fund, so it would not impact the City property tax resources directly.

The Chamber of Commerce contract: The City's basic \$15,000 contract with the Chamber of Commerce should be maintained, in order to carry on activities that are certain to be demanded whether the contract is in existence or not. The Chamber of Commerce will have to continue to answer telephone, mail and personal inquiries, irrespective of whether the contract continues, and in my opinion, it would be unfair on the part of the City to drop the contract.

AMBAG dues. I recommend continuation of AMBAG dues, despite the controversial nature of some projects falling under AMBAG's direction. AMBAG's basic function as a clearinghouse and forum for regional concerns must be carried on by one means or another, and the \$17,800 dues do not seem excessive in this context.

Rodeo costs: The California Rodeo generates certain costs in Police protection, special fire protection, barricading, etc., and while the City is reimbursed for a portion of these costs, others are absorbed by the City. We continue to attempt to increase the amount paid by the California Rodeo Association and the Colmo de Rodeo committee, but are satisfied that these two voluntary associations are doing their best.

4. Economies in workers' compensation insurance. The City's decision to self-insure for worker's compensation was clearly a wise one, saving literally hundreds of thousands of dollars for the taxpayers over regular insurance. During the current year we "charged" ourselves 70 percent of regular State Fund rates, with the understanding that any "profit" would be added to our modest \$100,000 reserve. We anticipate transferring \$266,000 into that reserve as a result of our favorable experience, and believe it would be prudent to reduce our level of "payment" in the year ahead to a level equal to 50 percent of State Fund rates. This will save an estimated \$200,000, allocated throughout the City's various programs.
5. Transfer of waste water treatment plant to regional operation. As Council is well aware, we are scheduled to sell our sewage treatment plant to the Monterey Regional County Sanitation District in the year ahead. This will

result in the financing of this service being shifted, as required by Federal law, to a sewer service charge (estimated by the District at \$4.50 per month). This will in turn alleviate a cost that is presently being absorbed by the general fund, amounting to \$382,000 per year. Your original declared intention was to reduce the tax rate proportionately, but Proposition 13 has rendered that intention moot. The exact date of transfer will determine the magnitude of savings for the 1978-79 fiscal year and we estimate that transfer may be accomplished about January 1, 1979, but have budgeted for the full year. We will also realize annual revenue over a period of 25 years on the sale of the facilities, which will assist in meeting the cost of the remaining collection system.

6. Reduction in fleet replacements. While we attempt to keep vehicle replacements to a minimum (consistent with reasonable operation and long term economy) every year, we have cut somewhat deeper this year. This tactic can boomerang on us if carried too far, as bulges in fleet replacement will become necessary in a future year, but we believe it is prudent under the circumstances. A prime example is the police fleet, which typically has been replaced annually at a cost of about \$125,000. Because of longer warranties, late delivery of our last order, and the change in policy recently approved by Council, we are recommending no replacement in the police fleet next year. Early in the following year total replacement is almost certain to be necessary.
7. Continuation of hiring freeze. We have considered the ramifications of layoff very carefully, and it is my judgment and recommendation that the hiring freeze which this office instituted on February 1 be continued indefinitely in the next fiscal year, in lieu of layoff. This will be slower in its impact and less dramatic in results, but it will also represent much less trauma to those who would otherwise be laid off. Vacancies frequently do not occur at the points in the organization where replacement can efficiently be deferred, but over a period of a year some significant savings should be achievable.
8. Street maintenance. Our streets are in relatively good repair, and Council is well aware of the advantages of timely slurry sealing and other maintenance as a means of avoiding costly reconstruction. You are also aware that we could and probably should be making an investment in street maintenance 5 or 10 times our present level without waste. Under the circumstances, however, I have reduced even the present level of \$50,000 by 50 percent in the interest of meeting our financial crunch, and sincerely hope that readjustment of some type will permit mid-year restoration of this important expenditure.

9. Overtime. Overtime pay is confined to those few areas of activity which can be handled in no other way, and the payment of overtime has always been carefully guarded and monitored, but in the year ahead it will be even tighter.

Police overtime is a key case in point, with most police overtime being in response to court subpoena, totally beyond our control. Police crime reports must contain the names of all officers who had any role whatsoever in the investigation, and defense attorneys and public defenders tend to subpoena everyone regardless of how marginal their involvement in the case. We may have 30 to 40 officers in court waiting to be called on any single day and this is a cost we cannot control directly. I have registered my concern and objection with the County Administrator, but considering the "separation of powers" aspects of the Public Defender's office, have probably generated little positive action and perhaps some negative reaction.

In any event, police overtime is held to a minimum in this budget, which may constrain our ability to respond to situations such as the Main Street cruising problem.

10. Training and selection. We have reduced the basic training budget by about 25 percent, eliminated the management intern program, and tightened up in other areas relating to training. I would caution against deeper cuts in training as a poor long range economy, as a reduction in work force simply places an added premium on maximum productivity of every remaining employee.

I should also caution that, as far as police training is concerned, this is largely reimbursable from the State. Reimbursement does not show up on this account, but in general revenue, so a mid-year adjustment in this area may not only be desirable but sound economics.

11. Elimination of special services. We intend to again recommend the elimination of such special programs as the funeral escort historically provided by the Police Department, as a function which the private sector is ready, willing and eager to provide. Each such program is not extremely costly in itself, but in the aggregate they do add up.

Prospective Reductions

Finally, 1978-79 will be a year of intensive review of all City operations. This is simply a continuation of existing policies, but an intensification of effort is appropriate under the circumstances. Personnel in the Finance, Personnel and City Manager's Office who have previously worked on such assignments will be assigned additional collateral duties in systems analysis. Efforts will be concentrated in areas too complex to draw sound conclusions in advance of a new budget

year. The reduction in street lighting for example, could save as much as \$100,000 to \$200,000 per year. We have investigated this previously and have decided against it because of the clear relationship between street lighting levels and the control of crime. Perhaps more sophisticated analysis may suggest a method of making such economies without the adverse side effect that are apparent at this time.

Employee Salaries As An Area For Economy

We have considered and rejected the area of employee's salary levels as a source of economies, except in terms of the number of employees receiving those salaries.

A primary reason for rejecting this approach is that unilateral decisions of this type would be unlawful. The Myers-Miliias-Brown Act requires that cities "meet and confer in good faith" with employee groups, and unilateral decisions would do violence to that concept.

A secondary reason for rejecting this approach as unworkable is that only local government is directly affected by Proposition 13's constraints. We must still compete in the general marketplace for employees, and a lower salary level will simply produce a lower level of competence on the part of employees over a period of time.

We have therefore concluded that although there may be fewer employees to whom salaries are paid, there is no more justification for artificially lowering employee compensation than there is to expect the suppliers of trucks, asphalt, gasoline, or any other commodity to subsidize it for the City.

The Other Side of the Coin: Additional Fees for Service

The other side of the service reduction coin is increased fees to maintain the services. Already mentioned are the golf program, softball program and swimming program, each of which provide recreational outlets to literally thousands of Salinas residents... and each of which must be subsidized at present rate levels. We will clearly need to place more reliance on fees for service to keep certain services functioning, and this too will require intensified staff analysis in the coming year.

PLANNED PROGRESS FOR FISCAL YEAR 1978-79

Planned progress for 1978-79 will necessarily be more modest than in past years, as new projects and program enhancements will be greatly constrained. The following areas of emphasis are provided for in the Program of Service, however, with restricted use funding providing most of the financing:

Front/Market Grade Separation

This, the largest single project in the City's history, will continue during 1978-79 and will ultimately provide a high degree of safety in the Front/Market area. An additional \$2.8 million allocation is recommended for the year ahead.

Neighborhood Improvement Program

In planning stages for several years now, this program will get underway during 1978-79, with major emphasis on the East Salinas area. Included in the program are a variety of housing services and neighborhood improvements financed jointly by Community Development Block Grant Funds and assessment districts totalling several million dollars.

Hebbron Heights Revitalization Program

Closely related to the Neighborhood Improvement Program is the Hebbron Heights Revitalization Program, composed of three improvement districts and a variety of public service programs.

Santa Rita Redevelopment Project

Similar to the Hebbron Heights Revitalization Program, the Santa Rita Redevelopment Project will encourage the upgrading of a large area recently annexed to the City, representing a \$2.2 million investment in Block Grant and private funds.

"Oldtown" Revitalization

One of the effects of Proposition 13 appears to be the sharp reduction of resources to advance the "Oldtown" Revitalization Project. The emphasis during the year ahead will be on regrouping and developing a program tailored to the drastically reduced resources.

Seed Money for Project Start-up

In view of the fact that available resources will not permit us to begin construction of several key projects during 1978-79, we are recommending nominal sums for advanced planning and some architectural work. A sum of \$26,000 is recommended for the Headquarters Fire Station to permit studies leading to site selection and preliminary design. A \$10,000 sum is recommended for the corporation yard project to permit a preliminary study relative to the feasibility of relocation versus modification of the existing yard. We are also recommending \$15,000 for preliminary design of the Santa Rita Fire Station. If supplementary funds become available, it may be feasible to take an additional step on one or more of these projects.

Davis Road Overpass

This important project is in essentially the same category as the foregoing three, except that the sum involved is greater. We are recommending an allocation of \$150,000 for preliminary engineering and appraisals.

Public Safety Facility Modifications

Relatively small sums are recommended for needed modifications in the police facility (\$33,000) and several fire stations (\$31,200). In each case the modifications do not represent full satisfaction of need for modification.

Ramps for the Handicapped

Utilizing funds available from a special Federal grant, we are recommending a \$97,000 project which will provide for construction of 178 ramps for the handicapped and some related improvements.

Miscellaneous Smaller Projects

Several other smaller projects are provided for in this program of service including the reconstruction of a portion of Nissen Road (\$30,000), a pressure tank and regulator at Sherwood Greens (\$30,000), renovation of the Recreation Center, in view of the need to prolong the life of this facility (\$38,000) and repairs to the Library heating and ventilating system (\$10,000).

Carry-Over Projects

In addition to the foregoing, the project pages in the back of this budget document summarize a number of other projects which have been previously approved and are either carried forward due to their size or the fact that they were started late in the fiscal year due to the project freeze.

THE REVENUE PICTURE

Proposition 13 has sharply reduced property tax revenue to the City, with the exact residual of the \$3.8 million figure still in doubt at this writing, but estimated at \$1.4 million for planning purposes. We believe that we have estimated conservatively, but it may be necessary to make adjustments after apportionment decisions have been made in Sacramento. Fortunately, proceeds from other major revenue sources, such as the sales tax and the utility user tax, are rising rapidly enough to at least partially offset property tax losses.

While most revenue sources are projected to produce essentially "normal" income levels during the year ahead, there are a few major revenue sources that perhaps justify special comment at this time. Sales tax, for example, is projected to rise from the present \$4.8 million level to \$5.0 million, an increase of about 4%. Utility user taxes are projected to rise from the

present \$1.3 million level to \$1.4 million, and business license taxes are projected to increase from \$450,000 to about \$500,000. Interest earnings will probably be somewhat less in the year ahead as a result of lower cash balances which we expect to maintain, dropping from a revenue figure of \$539,000 for the current year to \$380,000 in the year ahead.

General Revenue Sharing revenue and CETA revenue are expected to remain essentially constant, but anti-recession revenues which totalled \$315,000 in the current year will expire after the first quarter of the new year, producing only \$131,000 for the year. While block Grant funding is shown as a relatively major revenue source, Council is aware of the fact that this program is essentially a reimbursement, with revenues compensating for and lagging behind actual expenditures.

Motor vehicle "In Lieu" taxes and cigarette taxes are expected to rise slightly. As previously noted, the revenue from Monterey County paid to the City to provide library services to County residents is not expected to be renewed, eliminating a revenue source which would otherwise have been estimated at \$142,000.

All in all, the revenue picture for the City of Salinas is considerably brighter under the circumstances than it is for many other cities. With prudent budgeting on the expenditure side, we should be able to conserve our resources against the uncertainties of next year and the year after.

PROPOSED EXPENDITURES

Proposition 13 has cast a little different light on our planning for expenditures this year. While we must still concern ourselves with how and where public funds will be invested most wisely, the element receiving the most mileage in the press and among the public is where the cuts will be made. In this regard we have adopted a posture that is not greatly different from past years, but one that does attempt to adapt to our new circumstances. We have, for example, taken into account the views expressed by the public at our administrative public hearing on May 18, and the most recent California poll, just released today.

This latter expression of public opinion indicated overwhelming preference for cuts in welfare programs (62%), public housing (41%), environmental protection programs (34%), medical care programs (26%), courts (26%), and higher education (24%), none of which are City programs. Among the least favored for cuts are fire protection, police protection and parks and recreation program. Public transportation and streets are somewhere in the middle of the preference scale. The same survey also found that the public tends to think of cities as being more efficient (or less inefficient) than schools, counties, states, and the federal government, in that order. It might be inferred from these poll results, which are scientif-

ically developed by the respected Mervin Field organization, that the public is not necessarily expecting or desiring Draconian cuts in City services. A second poll, conducted by the Arthur D. Little Company and Opinion Research Corporation, reached some of the same conclusions, all of which tend to square with our basic premises in developing our plan for expenditures/reductions.

Proposed total expenditure levels have not been reduced as dramatically as some might prefer, for several reasons. First, total expenditures are skewed by special programs with special funding. Reduction of several thousand dollars in police, fire, recreation, or library programs (General Fund financed) are overwhelmed by sharp increases totalling millions of dollars in federally funded Community Development Block Grant funded programs, for example.

Second, we have attempted to avoid overreaction to strident (and often mindless) cries to "cut the fat" by individuals who have not bothered to examine the carcass to identify what is fat and what is lean. We have attempted to make gradual rather than drastic reductions in essential programs so that at year's end, after much of the present confusion has cleared, we will be in a solid position to move into the next fiscal year from a position of strength. Further downward fine tuning can be undertaken later if necessary.

Third, we have attempted to make reductions in areas that minimize long term damage to essential public services, and permit efficient restoration of programs if resources permit later.

Operating Budget

As previously noted, the recommended operating budget (excluding CETA) for 1978-79 totals \$14,955,380. Comparison of this figure with the current year's total is as follows:

	<u>1978-79</u>	<u>1977-78</u>	<u>Increase (Decrease)</u>	<u>% of Change</u>
Employee Services	\$ 10,505,110	\$10,491,190	\$ 13,920	+ .1
Operating Expense	4,322,880	4,353,791	(30,911)	- .7
Equipment Outlays	<u>127,390</u>	<u>633,838</u>	<u>(506,448)</u>	<u>-79.9</u>
Total	\$14,955,380	\$15,478,819	(\$523,439)	- 3.4

Personnel Changes Recommended

Personnel changes recommended may be summarized as follows:

	<u>1977-78</u>	<u>1978-79</u>
Administration	19 1/4	17 1/2
Finance	19 1/12	16
City Attorney	3 1/2	4
Community Development	23	23
Police	149	149
Fire	92	92
Public Works	124	123
Recreation Parks	79 5/8	76
Library	<u>36 1/2</u>	<u>31 1/4</u>
Total	545 23/24	531 3/4
CETA	113	115
TOTAL	658 23/24	646 3/4

This represents a moderate downward adjustment in some areas, for a total of a 14 5/24 position reduction in regular personnel, including necessary adjustments resulting from the loss of the anti-recession program.

The increase of two positions in the CETA program does not, of course, affect the General Fund.

As previously noted, we are recommending a policy of attrition rather than layoff in order to reach whatever appears to be an appropriate level of reduction, all factors taken into account, and the totals reflect some attrition since our hiring freeze was instituted last February 1. Attrition is of course slower than layoff in its effect, as employee turnover is not rapid, but attrition is also less damaging in its impact on the organization. I recommend that the existing hiring freeze continue indefinitely into the new year in order to achieve further reductions through attrition. Personnel details broken out by department may be found in the budget detail pages.

Operating Expenses

Operating expenses for the coming fiscal year are projected at \$4,322,880 which is a figure that is relatively consistent with the current year's total. Many operating costs are fixed, while in a number of other areas, such as insurance, measures are underway to attempt to reduce costs.

Equipment Outlays

Equipment outlays for the year ahead have been reduced sharply as previously noted, to a level of \$127,390. This sharp reduction achieves one of our goals for the current year (i.e., cost reduction) but as also previously noted, this does not mean that the need for replacement of equipment has been alleviated, but only that needs will accumulate into a future year.

Capital Projects

The great majority of capital projects recommended for Fiscal Year 1978-79 will be financed from special funding sources. This fact tends to skew totals upward, but of course reductions in special funding programs do not represent any impact whatsoever on the property tax or other general fund financial resources. New capital projects recommended are clearly identified on the appropriate schedule and the carry-over projects are, of course, all familiar to Council as previously approved projects. Inasmuch as each of these projects is fully described in the detail pages, no further elaboration seems necessary in this summary.

CAUTIONS REGARDING "EMERGENCY RESERVE"

As noted previously, Salinas has not in recent years had a "reserve" as such but has programmed its resources and prospective revenues against needed capital improvements several years into the future. We have recommended the creation of such a reserve, to be available for application to emergency need on short notice, by the assembly of all available funds from previously approved projects, economy cuts and other means. Assembly Speaker Leo McCarthy has warned that (comparatively speaking) 1978-79 would be the "easy" year, with 1979-80 becoming tougher, 1980-81 even tougher, and so on. Only as events play out and uncertainties are removed, will we know how tight future years will actually become, but it behooves us to adjust to this projection.

The "emergency reserve" thus assembled will total several million dollars (with the exact amount contingent on year-end fund balance calculations) and may appear deceptively large. It should be borne in mind, however, that the City's operating costs, even at reduced levels, total more than \$1,000,000 per month.

I would also caution that the "emergency reserve" will constitute the City's entire "hedge" against any and all the following circumstances:

1. Loss of anti-recession funding which totals \$314,000 this year.

2. The possible further loss of CETA funds, which total in excess of \$1,000,000 per year.
3. The possible loss of General Revenue Sharing funds in 1980, totaling over \$1,000,000 per year.
4. Projects and/or operating costs which have been eliminated or reduced in this recommended budget, and which Council may find necessary or desirable to restore.
5. Emergencies and unforeseen needs which may develop during the year.
6. Possible downturns in the economy that may adversely affect economy-related revenue sources, such as the sales tax.
7. "Worst case" interpretations of Proposition 13 that cause even deeper losses than our estimates are predicated upon.
8. Inevitable and sometimes uncontrollable rises in operating costs which could cause our cost curve to overtake our now flattened revenue curve in the next few years.

In addition to the foregoing, it should be borne in mind that relatively large sums are restricted in use, such as court deposits for condemnation, which total upwards of \$1,000,000 at any one time and which appear as part of the reserve.

In brief, we should make every effort to keep expenditures below revenues during 1978-79, as we have recommended, and maintain an emergency reserve until trends are considerably clearer than they are at this time.

CONCLUSIONS

The year ahead represents as demanding a professional challenge as the City has ever faced. More than simply a loss in revenue -- although that is challenging enough -- we are facing a series of system adjustments which will modify the basic way in which we do business in the future. Having warned of the adverse effects of Proposition 13 (and having those good faith warnings suspect in the environment of an election campaign) we must now move ahead to do our dead level best to minimize adverse effects and maximize opportunities.

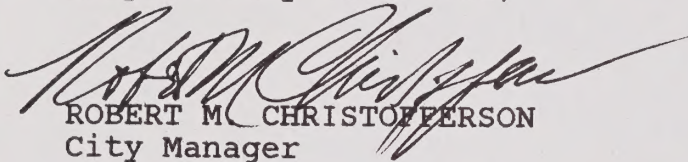
These circumstances will place a greater than ever premium on our management capabilities and teamwork.

Recognizing that "one man's fat is another man's services" we must sensitively fine tune the machinery of City government to serve the public as efficiently, effectively and economically as possible, with due concern for human values and needs. Of equal importance, we must be watchful that in the skirmish of

change ahead, we do not lose local control in the process. As I warned in my January 31 memo to Council, replacement revenue from Sacramento and Washington will almost certainly include certain strings and restrictions, eroding local independence and our long term ability to serve the public. As Alexis De Tocqueville noted many years ago in "Democracy in America", "...municipal institutions constitute the strength of free nations...A nation may establish a free government, but without municipal institutions it cannot have the spirit of liberty".

Perhaps this will be our greatest challenge in the months and years ahead.

Respectfully submitted,



ROBERT M. CHRISTOFFERSON
City Manager

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